SICAL LOGISTICS LIMITED

Ratings

Facilities	Amount (Rs.crore)	Ratings[1]	Remarks
Long-term Bank Facilities	256.96 (enhanced from Rs.123.65 crore)	**CARE BBB-** (Triple B Minus)	Reaffirmed
Long/Short-term Bank Facilities	100.00 (enhanced from Rs.66.30 crore)	**CARE BBB-/ CAREA3** (Triple B Minus/ A Three)	Reaffirmed
Total Facilities	**356.96**		

Rationale

The ratings continue to factor in established track record of Sical in the logistics sector for over five decades, integrated nature of logistics operations of the consolidated entity, stable revenue from its long-term service contract with major client, limited competition in stevedoring operations and demonstrated support of the current promoter namely the 'coffee day' group. However, the ratings continue to be constrained by significant exposure of Sical to its subsidiary companies of which the exposure to SIOT is largest and whose debt repayments are being supported by Sical as the project is yet to be operationalised and high competition in the trucking segment. Extent of exposure to subsidiaries/group companies and return on investments thereof, continued support from the promoter group along with the ability of the company to sustain profitability margins while scaling up its operations would be key rating sensitivities.

Background

Sical was promoted by Mr M.A.Chidambaram Chettiar in May 1955 under the name 'South India Corporation (Agencies) Private Limited' at Chennai. Sical is currently engaged in Port Handling, Trucking, Shipping Agency Services (SAS) and Customs House Agency (CHA). During FY11, the Bangalore-based Tanglin Retail Reality Developments (P) Limited (Tanglin), a part of 'Coffee Day' group acquired stake in the company and as on March 31, 2012, Tanglin held 53.13% stake in Sical.

Tanglin is a wholly owned subsidiary of Tanglin Developments Ltd (TDL) which in turn is a wholly owned subsidiary of Coffee Day Resorts Pvt. Ltd (CDRPL). CDRPL was promoted by Mr.V.G.Siddhartha and is the holding company of the Coffee Day Group. CDRPL is primarily into the business of managing hotels and resorts.

Credit Risk Assessment:

Long track record and integrated nature of logistics operations

Sical has been in the logistics business for more than five decades and operates in almost all the major ports in the country. The company has three business divisions namely Port handling division, Trucking division, and Customs House Agency. Port handling division is the major contributor (69% of total income in FY12) and the primary activity includes loading and unloading cargo to/from vessels at the ports. Major cargo handled by this division is coal, in addition to iron ore and dolomite. Sical has a Berth Reservation Scheme (BRS) agreement (valid till Feb 2018) for JD 5 dock with Chennai Port Trust and has exclusive rights for handling the vessels at this berth.

On a consolidated level Sical along with its subsidiaries operates in related line of business including Rail Logistics (SMART-Sical Multimodal and Rail Transport), Container Freight Stations (SDL-Sical Distriparks Ltd), and Container terminal operation (PSA Sical) which enables the company to provide integrated logistics solution at the consolidated level. SDL operates container freight stations at Chennai, Vizag and Tuticorin. SMART is primarily into rail operations and operates rake across India.

Stable revenue aided by the long term contract from TNEB

Sical has long-term agreement (up to Feb 2022) with Tamil Nadu Electricity Board (TNEB), whereby it had setup a mechanized coal handling facility at Ennore Port under BOT (Build-Operate-Transfer) model. TNEB has guaranteed minimum cargo of 6 million tonnes of coal per annum which ensures a stable stream of revenue to the company. In addition, the company also handles coal for TNEB at Chennai and Tuticorin Port. TNEB is a major client for Sical contributing to a significant share of its total income. During FY12, Sical generated around 44% of its total income from TNEB as against 32% of total income in FY11.

[1] *Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

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Limited competition in stevedoring operations and highly competitive nature of trucking Business

Coal handling requires effective port operations, liasoning with various authorities and good understanding of costs which imparts high entry barriers to this business and results in only a limited number of players being present in this segment. Trucking division is generally highly competitive. The industry faces stiff competition from both organised and un-organised sector. Sical has built its expertise in handling liquid cargo and also derives revenue from handling bulk cargo, engineering goods, project cargo etc. The company operates largely on an annual contract basis with its customers and derives majority of its income from South India.

Significant exposure to subsidiary/group companies

Sical had significant exposure of Rs.412 cr as on March 31, 2012 to its subsidiaries by way of investments and loans & advances. The major exposures were with Sical Infra Assets Ltd (Rs.112 crore as on March 31, 2012) which holding company for SMART & SDL, Sical iron ore terminal Ltd (Rs.118 crore) and Bergen offshore logistics (Rs.112 crore) which is engaged in dredging activity.

Overall the exposure to subsidiaries in the form of loans and advances has increased to Rs.412 crore as on March 31, 2012 as against Rs.361 crore as on March 31, 2011 primarily due to financial support extended to Sical Iron Ore Terminal Ltd (SIOT) for servicing its interest payments and increase in investments in Sical Iron Ore (Mangalore) Terminal Ltd.

Though the performance of few its subsidiaries have improved in FY12, the subsidiaries in which Sical has major exposure are yet to generate any returns. On a consolidated basis, the company reported a PAT of Rs.16crore (net loss of Rs.11 cr in FY11) on a total income of Rs.787 crore. The improvement was aided by the improvement in performance of some of the subsidiaries including Sical Distriparks Ltd and Ennore Automotive Logistics Ltd.

In addition to the investments and loans & advances, Sical has also extended support to its subsidiary/group companies by way of corporate guarantees for the loans availed by these companies. As on March 31, 2012, the corporate guarantees extended to subsidiary/group companies amount to Rs.468.62 cr, of which SIOT forms the major share at Rs.350 cr as on the same date.

Delay in operationalisation of Sical Iron Ore Terminals Ltd (SIOT)

SIOT was established for the purpose of setting up Iron Ore Handling Terminal at Ennore Port. Though the terminal was commissioned in November 2010, it is yet to start commercial operation due to ban on iron ore mining and exports by Government of Karnataka. In view of above, SIOT has got extension of Commercial Operations Date (COD) for 2 years i.e till August 2014. Even though the approval for extension of COD has been obtained, the company has not approached for revision of repayment terms in respect of SIOT's term loans from its bankers. As the SIOT facility is not generating cash flows, Sical has been supporting SIOT's debt servicing by way of loans and advances.

Even though SIOT expects to convert the Iron Ore Terminal to Multi-purpose cargo terminal and start commercial operations, servicing of debt obligations by SIOT on its own is likely to take time. Going forward, the continued servicing of interest and principal instalments of SIOT is likely to be a strain on the financial risk profile of Sical.

Demonstrated support of promoter

The 'Coffee day group' has been extending assistance to Sical by way of equity infusion.

In April 2011, the company has redeemed FCCBs with a maturity value of USD 50.16 million (Rs.226 cr). The redemption of FCCB's were partly funded through equity infusion of Rs.122 crore , financial assistance from promoter in the form of unsecured loan amounting Rs.67 crore which was subsequently replaced by term loan during FY12. Going forward, continuation of need based support from the promoter group would remain a key rating sensitivity.

Prospects

With stable revenue from long-term contracts, established business operations and stable profit margin, the financial position of Sical is likely to remain stable. Further, new businesses such as handling logistics activity for Coffeeday group, dredging activity and recently secured 'end-to-end' coal handling contract of NLC Tamil Nadu Power Ltd provides revenue visibility to Sical in the long term. At the same time, though Sical's subsidiaries are in related line of businesses and synergies of integrated operations imparts strength to the group as a whole, significant exposure to group companies by way of investments and corporate guarantees continue to be a key concern.

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Financial Performance

(Rs.crore)

For the period ended / As at March 31,	2010	2011	2012
	(12m, A)	(12m, A)	(12m, A)
Working Results			
Net sales	536	538	501
Total operating income	539	543	507
PBILDT	45	30	53
Interest	20	17	31
Depreciation	12	11	13
PBT	15	5	9
PAT (after deferred tax)	26	11	13
Gross Cash Accruals	37	14	22
Financial Position			
Equity share capital	40	40	56
Net Worth	258	400	409
Total capital employed	816	734	635
Key Ratios			
Growth			
Growth in Total income (%)	12.39	0.85	-6.58
Growth in PAT (after D.Tax) (%)	382.21	-59.22	23.57
Profitability			
PBILDT/Total Op. income (%)	8.43	5.61	10.52
PAT (after deferred tax)/Total income (%)	4.89	1.98	2.62
ROCE (%)	5.14	2.50	6.11
Solvency			
Long Term Debt Equity ratio (times)	1.69	0.73	0.34
Overall gearing ratio(times)	1.82	0.84	0.55
Interest coverage(times)	2.32	1.81	1.70
Term debt/Gross cash accruals(years)	11.90	21.62	6.17
Total Debt/GCA	12.81	24.71	10.15
Liquidity			
Current ratio(times)	1.19	2.08	1.08
Quick ratio(times)	1.18	2.06	1.06
Turnover			
Average collection period (days)	108	95	92
Average creditors period (days)	173	135	118
Average inventory period (days)	2	3	3
Operating cycle (days)	-62	-37	-23

A - Audited

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